

Message Text

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ACTION EB-11

INFO OCT-01 EA-11 ADP-00 AID-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 RSC-01 TRSE-00 XMB-07 OPIC-12 CIEP-02

LAB-06 SIL-01 OMB-01 PA-03 PRS-01 USIA-15 TAR-02

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R 240320Z JUL 73

FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 9064

UNCLAS SEOUL SECTION 1 OF 2 4791/1

E.O. 11652: N/A

TAGS: EGEN, KS

SUBJECT: NEW ECONOMIC PROJECTIONS FOR 1973-81

REF: A) SEOUL 4458 B) SEOUL A-78
C) SEOUL A-161 D) SEOUL A-162
E) SEOUL A-188 F) CERP

SUMMARY: FINAL VERSION OF AMBITIOUS PERSPECTIVE PLAN FOR 1973-81 NOW COMPLETED. GNP GROWTH RATE PROJECTED TO INCREASE FROM 9 PERCENT IN 1974-76 TO 11 PERCENT IN 1977-81 DUE TO RISING INVESTMENT RATIO AND EMPHASIS ON HEAVY AND CHEMICAL INDUSTRY DEVELOPMENT. NEED FOR NET FOREIGN FINANCING IS EXPECTED TO BE ELIMINATED BY 1981 DUE TO VERY RAPID RISE IN DOMESTIC SAVING. HOWEVER, IN CURRENT DOLLARS, WHICH ASSUME 3.5 PERCENT ANNUAL INFLATION, GROSS FOREIGN FINANCING REQUIREMENT FOR 1973-81 IS PROJECTED AT \$10.0 BILLION, OF WHICH 65 PERCENT WOULD BE FOR HEAVY INDUSTRY PROGRAM. GROSS FOREIGN FINANCING WOULD INCLUDE \$4.1 BILLION IN PUBLIC LOANS AND \$1.1 BILLION TOTAL INFLOW IN 1981, DESPITE SMALL BOP SURPLUS IN 1981 BASED ON \$11.0 BILLION IN COMMODITY EXPORTS AND \$10.3 BILLION IN IMPORTS. USING INFLATED DOLLARS AND UN-

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REALISTICALLY LOW POPULATION GROWTH RATES, PER CAPITA

GNP IS FORECAST TO REACH \$983 IN 1981. END SUMMARY.

1. EMBASSY HAS RECEIVED ADVANCE INFORMATION ON GOVERNMENT'S FINAL ECONOMIC PROJECTIONS FOR 1973-1981, WHICH ARE BASED ON ACHIEVING PRESIDENTIAL TARGETS OF \$10 BILLION IN EXPORTS AND \$1,000 PER CAPITA GNP BY 1982 AND WHICH INCORPORATE MORE RECENTLY ANNOUNCED HEAVY AND CHEMICAL INDUSTRY PLAN. THE PROJECTIONS FORM A "PERSPECTIVE PLAN" SUBJECT TO REVISION IN ANNUAL OVERALL RESOURCES BUDGETS AND IN FOURTH FIVE-YEAR PLAN FOR 1977-81. DETAILS OF THE FINANCING AND HEAVY INDUSTRY PLANS FOR THE PERIOD ARE STILL UNDER REVIEW. DISCUSSIONS WITH USG AND IBRD OFFICIALS TO BE HELD JULY 30-31 IN WASHINGTON PER REF A.

2. FINAL PROJECTIONS ARE SIMILAR TO DRAFT ONES REPORTED IN MARCH BY REF B. MAJOR DIFFERENCES ARE HIGHER ESTIMATES FOR INVESTMENT, IMPORTS AND FOREIGN FINANCING, BASED ON (A) INCREASED HEAVY INDUSTRY NEEDS AND (B) REVISED HIGHER ESTIMATES FOR 1973 FOR TRADE, INVESTMENT AND GNP (LATTER NOW UP 11.0 INSTEAD 9.5 PERCENT). CONFUSING MIXTURE OF CONSTANT AND CURRENT PRICE PROJECTIONS RESULTS FROM GOVERNMENT NECESSITY USE ONLY CURRENT (ANNUALLY INFLATED) DOLLAR PRICE SERIES TO SHOW ATTAINMENT OF GNP PER CAPITA AND EXPORT TARGETS. FOLLOWING HIGHLIGHTS USE CONSTANT PRICE DATA TO MAXIMUM EXTENT POSSIBLE.

3. REAL GNP IS EXPECTED TO GROW AT 9.0 PERCENT PER ANNUM IN 1974-76 AND 11.0 PERCENT IN 1977-81. THE LOWER RATE FOR 1974-76 WAS USED TO REMAIN CONSISTENT WITH THE STABILIZATION PURPOSE OF THE THIRD PLAN, WHICH REMAINS BASIC GUIDE FOR PERIOD. THE HIGHER GROWTH RATE IN 1977-81 WILL REQUIRE A RISING INVESTMENT RATIO, FROM 22 PERCENT OF GNP IN 1972 TO 27 PERCENT IN 1976 TO NEARLY 32 PERCENT IN 1981. MANUFACTURING WILL GROW MOST RAPIDLY IN INVESTMENT AND OUTPUT, WITH HEAVY INDUSTRY INCREASING FROM 35 TO 51 PERCENT OF MANUFACTURING OUTPUT AND FROM 27 TO 65 PERCENT OF MANUFACTURED EXPORTS DURING 1972-81. AGRICULTURAL OUTPUT IS PROJECTED TO GROW AT ONLY 4-5 PERCENT PER ANNUM, COMPARED TO 16-17 PERCENT GROWTH IN MANUFACTURING.

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4. IN REAL TERMS COMMODITY EXPORTS ARE EXPECTED TO GROW AT COMPOUND RATE OF 28 PERCENT IN 1972-76 (BUT ONLY 19 PERCENT IN 1974-76) AND TO SLOW TO 16 PERCENT RATE IN 1977-81. IMPORTS ARE NOW EXPECTED TO GROW BY 14.4 PERCENT IN 1972-76 AND 12.6 PERCENT IN 1977-81. ROKG WILL PRESENT BOP DATA ONLY IN CURRENT PRICES, HOWEVER, BASED ON ASSUMED 3.5 PERCENT ANNUAL RATE OF EXTERNAL INFLATIONS,

1973-81. THIS RAISES COMMODITY EXPORTS IN 1981 FROM \$8.2 TO 11.0 BILLION AND IMPORTS FROM \$7.7 TO 10.3 BILLION. (LOWER FIGURES REPRESENT WON VALUES IN 1970 PRICES AT 1970 EXCHANGE RATE: DUE TO OFFSETTING PRICE AND EXCHANGE RATE CHANGES, THESE 1970 DOLLARS ARE ALMOST IDENTICAL TO 1972 DOLLARS IN TERMS PURCHASING POWER IN KOREA.)

5. IN CURRENT PRICES THE NET GOODS AND SERVICES DEFICIT (EQUAL TO FOREIGN SAVING) IS EXPECTED TO REMAIN AT ABOUT \$700-800 MILLION LEVEL THROUGH 1978 AND THEN DECLINE TO \$260 MILLION IN 1980 AND CHANGE TO A \$90 MILLION SURPLUS IN 1981. TOTAL REQUIRED FOREIGN SAVING IN CURRENT PRICES DURING 1973-81 IS NOW ESTIMATED AT \$5.05 BILLION. UP \$1 BILLION FROM DRAFT ESTIMATES. GROSS FOREIGN CAPITAL ARRIVAL REQUIREMENTS ARE ESTIMATED AT \$10.0 BILLION, COMPOSED OF 1.6 FOREIGN INVESTMENT, 4.1 PUBLIC LOANS AND 4.3 COMMERCIAL LOANS DURING 1973-81. LITTLE DECLINE IN GROSS CAPITAL INFLOWS IN CURRENT PRICES IS FORECAST THROUGH 1981, WHEN ARRIVALS WILL EQUAL OUTFLOWS OF \$1.1 BILLION IN BEST SERVICE AND PROFIT REMITTANCES. PUBLIC LOAN ARRIVALS ARE PROJECTED AT \$400-500 MILLION PER ANNUM THROUGHOUT PERIOD, WITH ONLY

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FM AMEMBASSY SEOUL

TO SECSTATE WASHDC 9069

UNCLAS FINAL SECTION OF 2 SEOUL 4791/2

MODERATE SHIFT TO FOREIGN PRIVATE FINANCING. DEBT OUTSTANDING, HOWEVER, IS FORECAST TO GROW LESS

RAPIDLY THAN EXPORTS AND BEST SERVICE RATIO FOR DEBT THREE YEARS AND OVER IS ESTIMATED TO DECLINE FROM 14.1 TO 7.6 PERCENT OF EXPORTS OF GOODS AND SERVICES, 1972-81.

6. TO MINIMIZE THEIR MAGNITUDE, TOTAL INVESTMENT AND FINANCING REQUIREMENTS FOR 1973-81 PERIOD AS A WHOLE WILL BE PRESENTED IN CONSTANT 1970 PRICES AND DOLLARS. TOTAL INVESTMENT DURING 1973-81 IS ESTIMATED AT \$42.2 BILLION, WITH FOREIGN SAVING (NET FOREIGN FINANCING) PROVIDING 10.7 PERCENT OR \$4.5 BILLION IN 1970 DOLLARS. (GROSS CAPITAL INFLOWS WOULD BE \$8.9 BILLION IN 1970 DOLLARS, NEARLY EQUAL TO 1972 DOLLARS FOR KOREA.) TENTATIVE ESTIMATE FOR HEAVY AND CHEMICAL INDUSTRY INVESTMENT IS \$9.6 BILLION (IN 1970 DOLLARS) OF WHICH 60 PERCENT, OR \$5.8 BILLION, WOULD BE GROSS FOREIGN FINANCING. LATTER WOULD ACCOUNT FOR 65 PERCENT OF \$8.9 BILLION TOTAL FOREIGN FINANCING AND PRESUMABLY NEARLY ALL OF EQUITY INVESTMENT AND COMMERCIAL LOANS. (U.S. EXIM TREATED AS COMMERCIAL LENDER IN KOREAN DATA. SEE ALSO REFS C, D, AND E) .

7. IN CONSTANT PRICES NATIONAL (DOMESTIC) SAVING IS PROJECTED TO INCREASE RAPIDLY FROM 14.6 PERCENT OF GNP IN UNCLASSIFIED

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1972 TO 32.1 PERCENT IN 1981, WHEN IT WILL SLIGHTLY EXCEED GROSS INVESTMENT. TO REACH THE TARGETED LEVELS, VERY HIGH MARGINAL RATES OF SAVING (FROM INCREMENTAL GNP) OF .42 DURING 1973-76 AND .45 DURING 1977-81 WILL BE NECESSARY. GOVERNMENT SAVING IS PROJECTED TO PROVIDE ABOUT ONE-FOURTH OF NATIONAL SAVING, OTHER SAVINGS MEASURES, SUCH AS A NATIONAL SUBSCRIPTION FUND AND A SOCIAL SECURITY SCHEME, ARE EXPECTED TO BE ANNOUNCED SHORTLY.

8. BASED ON UNREALISTICALLY LOW POPULATION GROWTH RATES OF 1.3-1.5 PERCENT AND 5 PERCENT PER ANNUM INFLATION, ROKG IS PROJECTING 1981 GNP PER CAPITA AT \$983, I.E. IN 1981 PRICES NOT SPECIFIED TO PUBLIC. IN REAL TERMS GNP IN 1981 IS FORECAST TO BE 2.42 TIMES 1972 LEVEL. IF MORE REALISTIC AVERAGE POPULATION GROWTH RATE OF 2.0 PERCENT IS ASSUMED, GNP PER CAPITA IN 1981 WOULD BE 2.02 TIMES 1972 LEVEL, I. E. WOULD RISE FROM \$302 TO \$610 IN CONSTANT PRICES AND 1972 DOLLARS.

9. TENTATIVE PROJECTIONS HAVE ALSO BEEN MADE FOR PROJECTION, CONSUMPTION AND EXPORT OF SPECIFIC PRODUCTS IN 1976 AND 1981. E.G. STEEL PRODUCTION IN 1981 ON CRUDE STEEL BASIS IS FORECAST AT 13.5 MILLION MT, WITH 35 PERCENT ESTIMATED TO BE EXPORTED.. REQUIREMENT FOR SCIENTIFIC AND TECHNICAL MANPOWER IN 1981 IS PROJECTED AT 4.3 TIMES 1972 LEVEL. PERSONS COMPLETELY UNEMPLOYED ARE FORECAST

TO DECLINE FROM 4.5 TO 3.0 PERCENT OF LABOR FORCE,

1972-81.

10. COMMENTS FOLLOW IN SEPTTEL AND SUMMARY TABLES BY
AIRGRAM.

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